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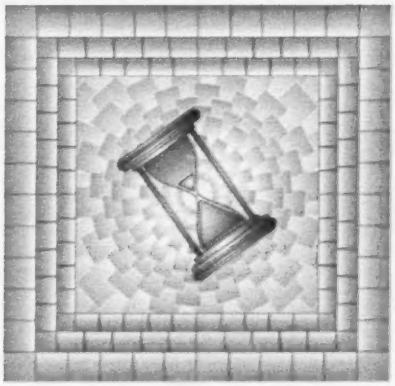
Recent trends in new house prices in the Greater Golden Horseshoe region



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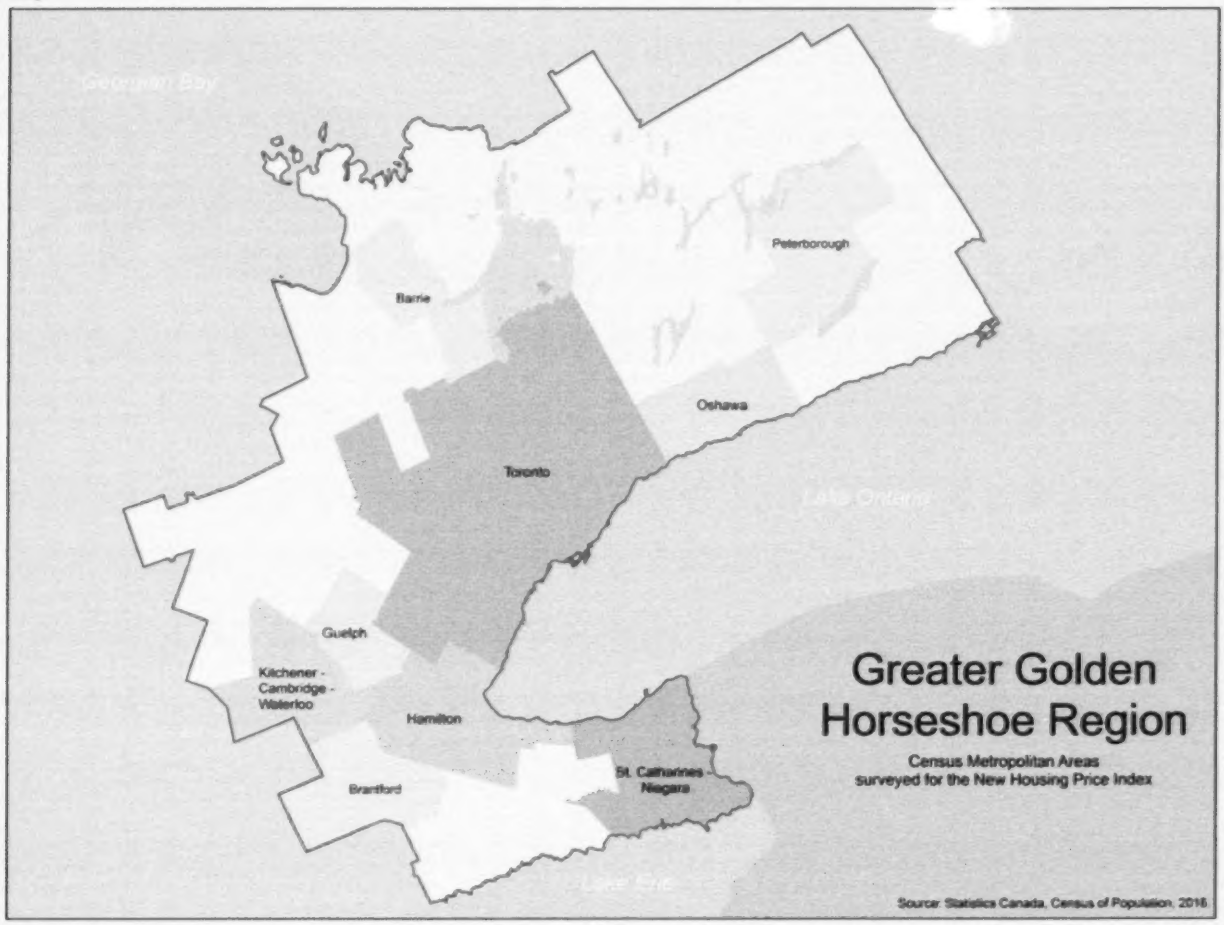
Recent trends in new house prices in the Greater Golden Horseshoe region

by **Rohit Verma** and **Melanie Beaupré**

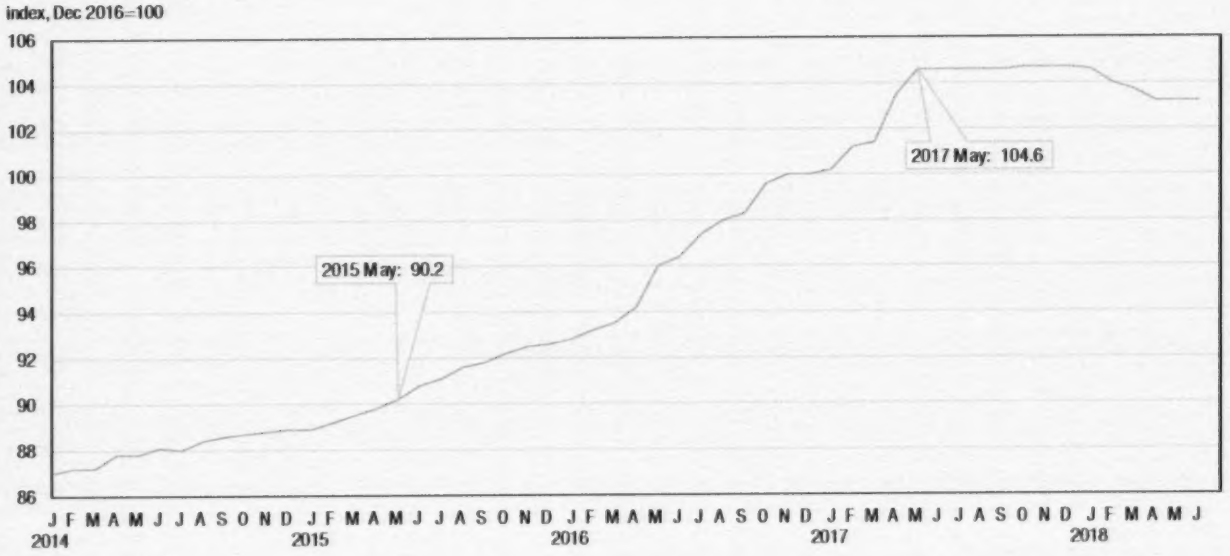
Recent months have taken some of the shine off the new housing market in Ontario's Greater Golden Horseshoe (GGH) region. The area, anchored by Toronto and wrapped around the western end of Lake Ontario has, in recent years, been one of the most active in Canada in terms of the high prices of new homes.

Map



Toronto, Canada's most populous census metropolitan area (CMA), which is home to 5.9 million residents, has historically been one of the country's pricier housing markets. Between May 2015 and May 2017, prices for new homes rose 16%. Growth in population, demand for new homes, as well as the higher cost of developed land contributed to the price gains.

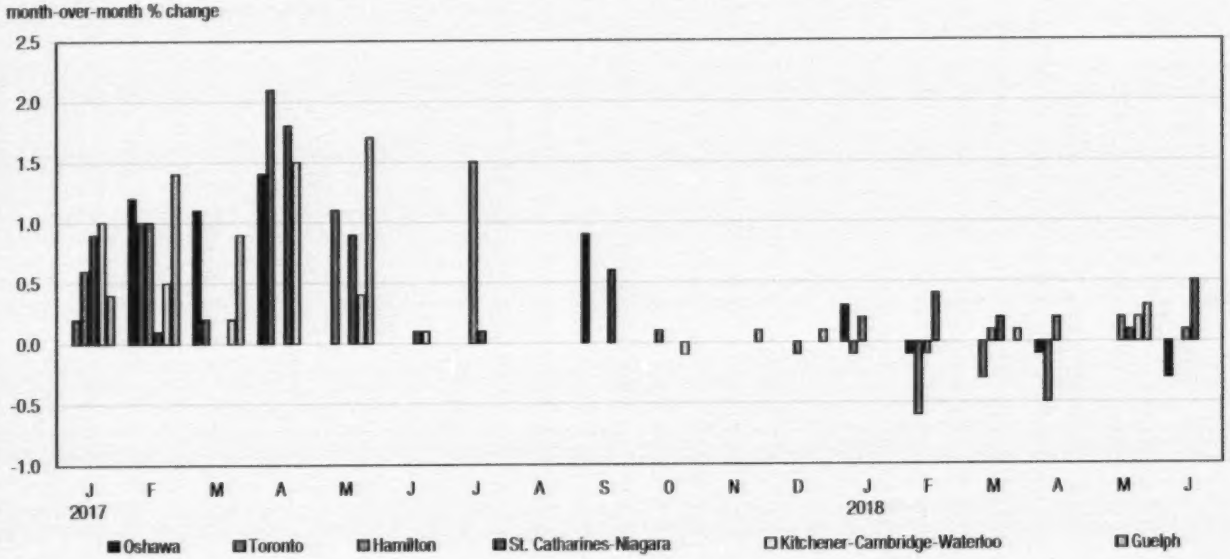
Chart 1
New housing prices in Toronto



Source: Table 18-10-0205-01

The high price tags for new and resale homes in Toronto made commuter-friendly and nearby CMAs such as Oshawa, Hamilton, St. Catharines-Niagara, Guelph and Kitchener-Cambridge-Waterloo increasingly popular among home buyers, due to their overall affordability. As house prices continued to climb in Toronto, the spillover effect was felt in the surrounding CMAs, with prices rising across the GGH region until May 2017.

Chart 2
New housing prices in Toronto and other CMAs within the Greater Golden Horseshoe region



Source: Table 18-10-0205-02

New home prices paused soon after the introduction of the Fair Housing Plan

As home prices were increasing and, so too, concerns about affordability, the Ontario government, in an attempt to cool the housing market, introduced the Ontario Fair Housing Plan[1] in April 2017. The plan included a 15% Non-Resident Speculation Tax, as well as measures to increase housing supply in Ontario. This was followed by several mortgage rate hikes by Canadian lenders in the second half of 2017.

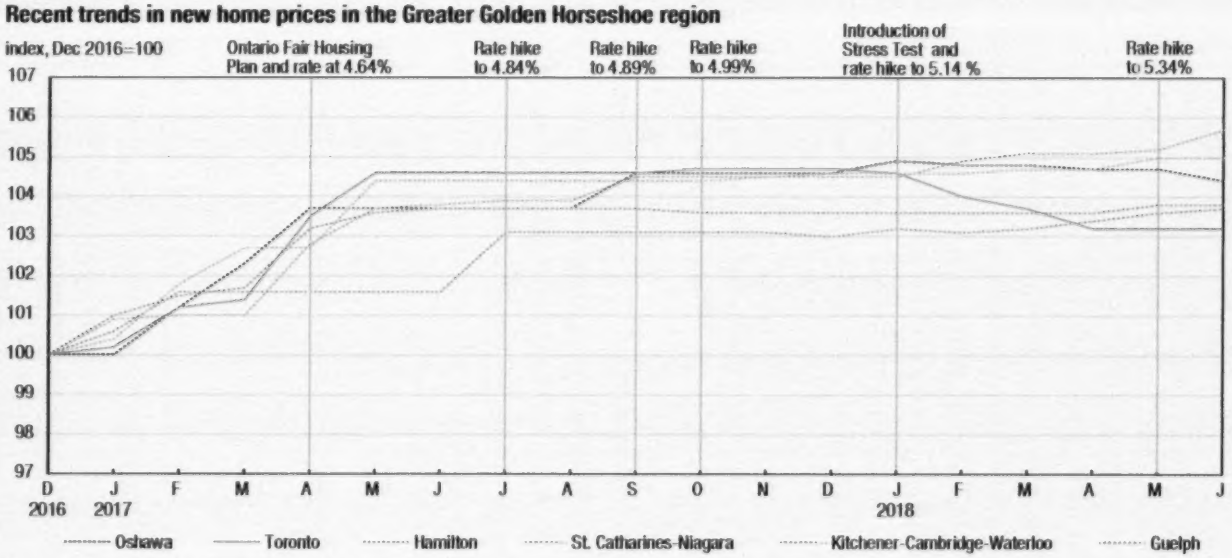
The new measures, combined with higher lending rates, coincided with a pause in new home prices in Toronto and nearby CMAs in the GGH region.

Introduction of stress test and further hikes in mortgage rates

In January 2018, the federal regulators – Office of the Superintendent of Financial Institutions Canada (OSFI), tightened mortgage regulations by introducing a stress test[2]. It requires the minimum qualifying rate for uninsured mortgages to be the greater of the five-year benchmark rate published by the Bank of Canada or the contractual rate plus 2%. This led to reduced purchasing power for most potential borrowers. This was further dampened by increasing mortgage rates in the first half of 2018.

As provincial and national regulations were implemented, and mortgage rates increased, new home buyers in the GGH region saw an overall flatness in prices. In Toronto, new home prices were largely unchanged from June to December 2017, followed by a few price declines in 2018. Other surveyed CMAs in the GGH region also saw muted prices in the second half of 2017, but contrary to Toronto, for the most part, they did not experience declines in the first half of 2018.

Chart 3
Recent trends in new home prices in the Greater Golden Horseshoe region



Sources: Tables 18-10-0205-01 and 10-10-0122-01
Ontario Fair Housing Plan
Office of the Superintendent of Financial Institutions

Background: Statistics Canada collects new home prices (single, semi-detached and townhouses) under the New Housing Price Index (NHPI) program[3] in 27 CMAs, including six CMAs within the Greater Golden Horseshoe region. The six CMAs surveyed in the region are Toronto, Oshawa, Hamilton, St. Catharines-Niagara, Kitchener-Cambridge-Waterloo, and Guelph.

1. https://news.ontario.ca/mof/en/2017/04/ontarios-fair-housing-plan.html
2. http://www.osfi-bsif.gc.ca/Eng/osfi-bsif/med/Pages/B20_dft_nr.aspx
3. http://www23.statcan.gc.ca/imdb/p2SV.pl?Function=getSurvey&SDDS=2310

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